

Before the
Federal Communications Commission
Washington, D.C. 29554

In the Matter of

"Glide Path" Policy Paper)	
filed by State Members of)	CC Docket No. 80-286
Federal-State Joint Board on)	
Jurisdictional Separations)	

Comments of Home Telephone Company, Inc.

Home Telephone Company, Inc. (Home), hereby files comments in response to the Public Notice on the Glide Path Paper published by the state members of the Federal-State Joint Board on Jurisdictional Separations. In the public notice, the Commission seeks comment on the Glide Path Policy Paper.

Home Telephone is a rural Local Exchange Carrier (LEC) operating in the southeastern portion of South Carolina. We serve approximately 22,000 access lines, which are located predominately in rural areas of Berkeley County. Our service territory is adjacent to the Charleston, South Carolina metropolitan area.

As a small rural LEC, we are tremendously concerned about the significant changes the FCC has recently created and continues to contemplate through the release of the many recent notices of proposed rule making (NPRMs). The "glide path paper" is simply the latest of many recent documents seeking comments on massive, fundamental changes that have the potential of forever altering the telecommunications landscape of rural America.

The FCC has traditionally used the notice, comment, and reply comment mechanism to gather input on proposed rule changes. The process effectively shuts out input from most smaller, rural LECs. This latest notice is another example of an incredibly complex document requiring tremendous resources in order to both comprehend and reply. The extremely short interval between release and comment deadline makes it

almost impossible for the FCC to receive meaningful comments from any small LEC. Most small LECs possess neither the personnel nor sufficient time to analyze and comment on issues of such complexity as those presented in this and other public notices. The FCC must seek out rural LEC input through regional public hearings or other means in order to ensure that rural LEC concerns are heard and addressed.

Within the context of the above comments, Home Telephone desires to respond in general terms to the issues raised in the glide path paper.

The state members of the Separations Joint Board have done an excellent job summarizing the settlement issues facing the LEC industry. The glide path paper points out several truths that must be faced regardless of our desire to deny them.

1. Interstate access and other usage based charges have been, or soon will be reduced to the point where they provide only minimal support in maintaining affordable local rates.
2. Because of the FCC's policy to recover interstate costs in the form of flat rate subscriber line charges (SLC) assessed directly to the end user, the allocation of costs to the interstate jurisdiction is becoming transparent to the local customer as it simply results in additional flat rate fees similar to flat rate local service fees.
3. Regardless of regulatory efforts, technology is rendering many current settlement practices unsustainable. By mid 2003, almost all non-traffic sensitive cost will be removed from usage-based charges. The recovery of remaining traffic sensitive costs will be heavily dependent on the continuation of traffic over the public switched network. Traffic is already leaving the public switched network in the form of dedicated by-pass, wireless, voice-over IP and broadband or packet switched traffic. Any attempt to recover costs in excess of the direct costs associated with a LECs' traffic sensitive facilities will simply lead to an acceleration of traffic exiting the public switched network and could lead to declining total usage sensitive revenues.

4. The inability to maintain sufficient usage based revenues and resulting shift in the recovery of costs from flat rate charges places the entire burden of supporting local service costs on the local ratepayer. This mandated transition disadvantages the rural ratepayer where network costs are much higher and jeopardizes the ability to maintain legislatively mandated reasonably comparable rates with ratepayers in urban areas, and ultimately raises universal service concerns.

The discussion of separations issues such as those raised in the glide path paper cannot be addressed in a vacuum. The FCC, through its various NPRMs, has addressed restructuring Federal Universal Support, Bill and Keep settlement options, access reform, broadband and UNE issues. This has created a wide array of issues that will ultimately impact separations reform. The glide path paper asks the question: “what’s next?” It seeks comment on the best transition path or “glide path” that will “take separations from the current regime under the freeze to whatever systems are needed in the new environment.” A key question that is not asked, and indeed cannot be answered at this time, is what is the environment separations will be operating within at the end of the freeze. The FCC is considering fundamental changes that could even include the elimination of interstate access fees and the adoption of a Bill and Keep settlements system. The attempt to address separations reform before resolving the underlying issues identified above is much like putting the proverbial cart before the horse. Neither can be expected to make much progress.

Given the uncertainty of future settlements mechanisms, limited staff, and the extremely short time frame for comment, Home can only offer very general comments on each of the proposed options identified in the glide path paper. Our primary concern, as a rural LEC, is that we be able to sustain the revenue flows necessary to provide advanced quality telecommunication services at reasonable rates to the rural consumer we serve. In the final analysis, how we get there is much less important than ultimately getting there. Thus, our comments consider each of the paper’s options in regard to how well it protects revenue flows to rural America.

Option 1 – Extend the Freeze

This option creates, perhaps, the least uncertainty of all options presented. It preserves, to the greatest extent possible, existing federal support of local rates. It does not address other fundamental concerns that are outside the scope of separations such as flat rate recovery of costs and the viability of continued Federal Universal Service support. However, with all of the other changes currently under consideration, this option provides some stability until such time as underlying settlements issues are finally resolved. A continuation of the interim freeze, until such time as settlement and USF issues are resolved, helps to provide a reference point to which other changes can be measured.

Option 2 – Separate Traffic Sensitive Costs with Fixed Allocators

This proposal could lead to massive revenue dislocation. To the extent that the new fixed allocators differ from current frozen allocations, winners and losers will be created. If the fixed allocators are based on the LEC study area, it should result in the same frozen allocation factors used today, making a study area fixed allocation in effect the same as Option 1, a frozen allocation. In light of current uncertainty in the overall settlements process, this is the only fixed allocation option that should be considered.

Option 3 – Total Company Revenue Requirement

This proposal is, in effect, already being utilized. Federal revenues are limited by current separations rules. To the extent a LEC's total revenues do meet total revenue requirements, the only recourse is on the state side. The consideration of total company revenues does not really represent a separate option. The true "separations" change this option proposes is to set rates based on a cost model or to utilize a price cap mechanism to set federal rates. Neither of these options is superior to the freeze option proposed in Option 1. However, any consideration of establishing rates based on a cost model promise tremendous revenue dislocation and this option should be abandoned.

Rates based on a price cap mechanism using existing rates would, at least, insure revenue stability and would likely be the second best choice of the alternatives provided in this paper.

Option 4 – Redesign Separations to Account for Packets and Competition

This proposal attempts to make separations something the paper's authors admit it is not, a meaningful way to allocate costs. As the paper states, "the separations process may once have provided a forum for addressing the fundamental rate design issue of flat versus usage based charges. In its current form, separations no longer provides that forum."¹ Given the inability of separations to affect any meaningful rate design, any efforts to simply make the process more accurate adds no real value to the process. Indeed, the paper itself states that the accuracy of cost allocations is of reduced importance. This option should be abandoned.

Option 5 – Facilities-Based Separations

This option, would, in effect, place almost all, if not all cost incurred by most rural LECs into the state jurisdiction. The "access tandem" switch proposed as the demarcation point between Federal and State jurisdictions is usually located in RBOC territory. Thus, rural LECs, those with the highest costs, would be forced to rely entirely on state pricing to recover their costs. This is perhaps the most dangerous of the proposals and should be rejected.

Option 6 – End of Separations – One Jurisdiction

This proposal is broken into two parts. Proposal 6A assumes State control over all pricing. This option would create high cost and low cost states and would lead to smaller, high cost states having much higher rates than larger, more urban states. This proposal would jeopardize Universal Service and should be discarded.

¹ "State Members' Report on Comprehensive Review Of Separations: at page 11, filed in CC Docket No. 80-286 on December 21, 1998 (the 1998 Report). The 1998 Report was the subject of a public notice released by the FCC on February 26, 1999, DA 99-414.

The second approach, 6B, would be to allow Federal jurisdiction over pricing. This approach would at least allow for continued national price averaging. However, it violates the concept of our federal system and puts the FCC in the impossible position of attempting to meet local needs from a federal perspective. This proposal would not be a workable solution.

Option 7 – End of Separations – Competition Overtakes Regulation

This will be the final long-term solution. However, we are not yet close to its realization. Until the states and the FCC can totally remove all regulatory pricing requirements, this option will not be achievable.

Summary and Conclusion

The glide path paper raises many interesting points and does a good job of presenting possible options for the future treatment of separations. However, the paper is premature at this point in that the settlement environment in which the new separations mechanism must operate has not yet been determined. The FCC should initiate an aggressive effort to solicit the input of smaller, rural LECs on the broader issue of future cost recovery processes.

In the future it would seem that separations will be important mainly as it relates to Federal USF support which will be necessary to keep rates comparable between rural and urban areas. If we lose the ability to assign costs to the federal jurisdiction, we lose the ability to support national averaged pricing.

The FCC should first resolve future settlement issues in such a way as to insure continuation of federal support of high cost areas before it undertakes comprehensive separations reform.

Respectfully submitted,

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